

General Fund Revenues

Overview	A-40 thru A-41
Real Estate Tax	A-42 thru A-46
Personal Property Tax	A-46 thru A-47
Local Sales and Use Tax	A-48
Meals Tax	A-49
Transient Lodging Tax	A-50
State Aid	A-50
Utility Tax	A-51
Cigarette Tax	A-51
Business License Tax	A-52

Overview

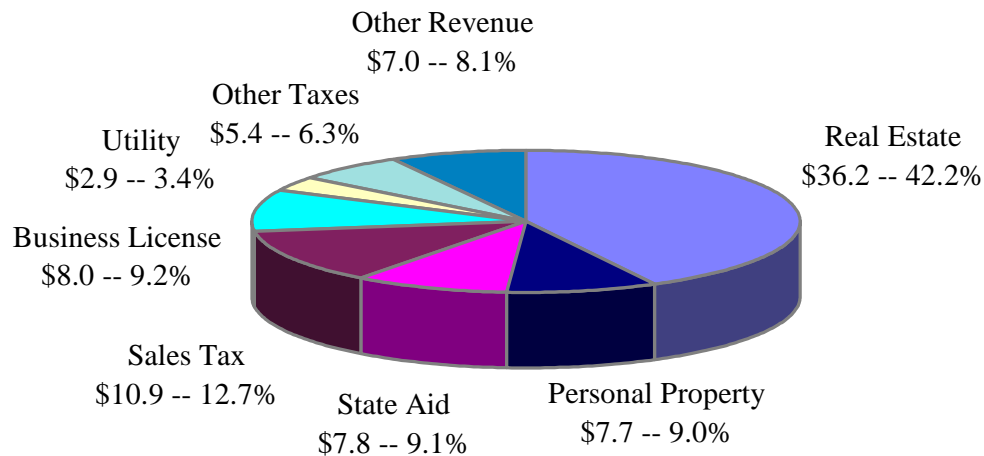
Revenue projections, for both FY03-04 and for FY04-05, generally are consistent with the estimates presented to the City Council in November during our mid-year budget review and goals setting session. Real estate revenues exceed FY03-04 projections and we anticipate still additional projected increases in FY04-05, although at a somewhat reduced rate. The City's sales and meals taxes continue to appear to be meeting revenue forecasts for FY03-04. Sales tax receipts, while increasing, are cause for some caution. Sales tax revenues instantly react to changes in the economy, and these remain uncertain (and somewhat unstable) economic times. Personal property tax revenue, while under estimated revenue in FY 03-04, appears to be stabilizing.

General Fund Revenue Increases

General Fund Revenue Sources: FY 04-05

Total: \$85,887,774

In Millions



If you examine the history of the City's revenues over the last ten years, two trends are evident. First, like all local governments, the City's primary source of increased revenue is the real estate tax. Collections from this source of revenue for the last ten years increased by 99.2 percent. During that same period of time, real property values in the City increased by 108.7 percent and wages and salaries, as measured by the Bureau of Labor and Standards, have increased by 43 percent.

The second trend is the consistency of the City's revenue base. Sales tax and business license tax revenues show good rates of increase; others are stable or show more modest gains. The City's primary source of revenue remains the real estate tax.

CITY OF FAIRFAX, VIRGINIA
GENERAL FUND REVENUES BY SOURCE
FY 95-96 TO FY 04-05

Fiscal Year	Real Estate	Personal Property	Local Sales	Business License Tax	Meals Tax	Other Tax	Inter- Governmental	Other Sources	Total
1995-96	18,508,610	5,495,461	7,021,644	4,777,094	1,282,831	4,074,712	5,885,263	2,265,744	49,311,359
1996-97	19,488,089	5,997,983	8,442,813	5,095,848	1,329,657	4,215,552	6,202,067	3,127,857	53,899,865
1997-98	19,779,814	6,154,443	8,228,539	5,374,810	1,532,142	4,558,503	6,378,392	3,974,812	55,981,455
1998-99	20,412,661	6,286,496	9,075,962	5,737,513	1,501,868	4,705,115	7,377,074	6,897,177	61,993,866
1999-00	21,987,554	6,687,851	8,866,976	5,925,615	1,614,337	5,091,326	8,447,881	5,116,341	63,737,881
2000-01	23,943,846	7,268,720	9,737,741	7,181,712	1,774,326	5,149,784	8,783,115	5,641,452	69,480,695
2001-02	27,057,806	7,742,347	8,889,946	6,958,288	1,839,986	5,219,207	8,460,554	4,847,661	71,015,795
2002-03	29,976,644	7,951,171	9,875,008	7,660,442	1,930,225	5,328,963	8,150,217	4,638,483	75,511,153
2003-04	32,936,953	7,679,500	10,425,000	7,800,000	2,000,000	6,051,554	8,104,983	5,168,233	80,166,222
2004-05	36,125,453	7,822,500	10,900,000	7,950,000	2,080,000	6,270,054	7,867,993	6,871,774	85,887,774
(1)	2003-04 is estimated.								
(2)	2004-05 is proposed.								

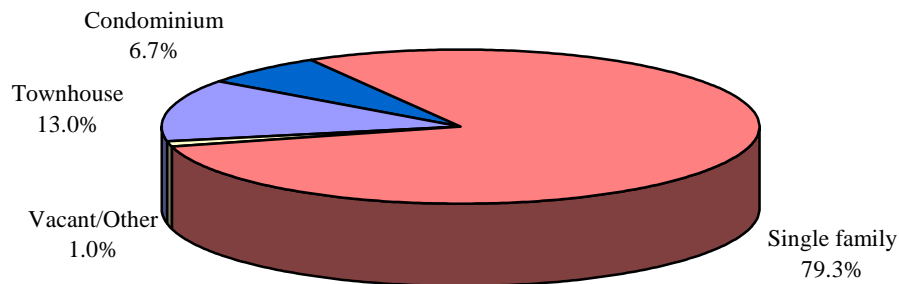
Real Estate Tax

Real property tax revenues account for the largest category of revenue for the General Fund, 42.2 percent. Because of continuing high re-sale activity and new construction, we continue to experience significant increases in assessments, particularly in residential valuations. Home sales volume remains strong, driven by high demand and a tight housing supply, as well as by still low mortgage costs.

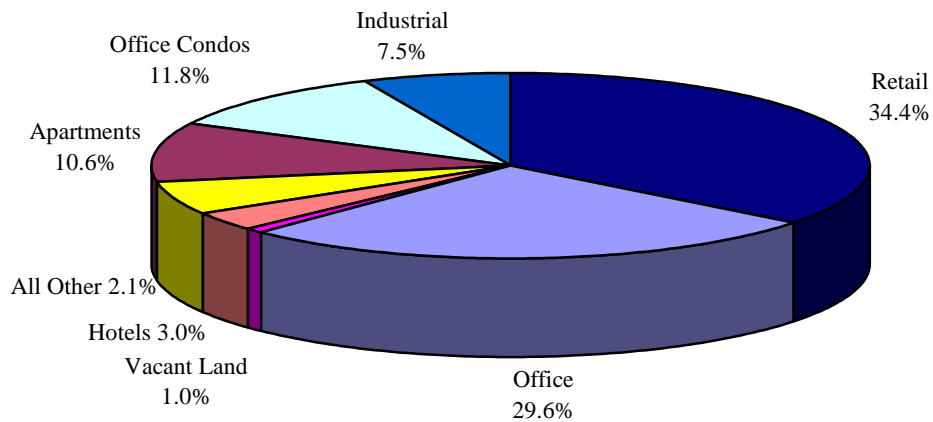
Total real estate assessments are up 11.8 percent in 2004. The overall residential assessment total has increased by approximately 13.6 percent due to new construction valued at \$10.3 million and \$276.9 million in reassessments. Single-family and townhouse residential assessments are up an average of 12.3 percent. Condominium sales prices have risen dramatically; those assessment increases average 20.3 percent.

Commercial assessments are increasing at a slower rate, but continue to increase. Commercial assessments have increased approximately 8.7 percent overall. The increase in commercial assessments is due to the relative continued low vacancy rate, although office vacancy rates have risen approximately 2 percent during the past year, and increased rental rates, as well as new construction.

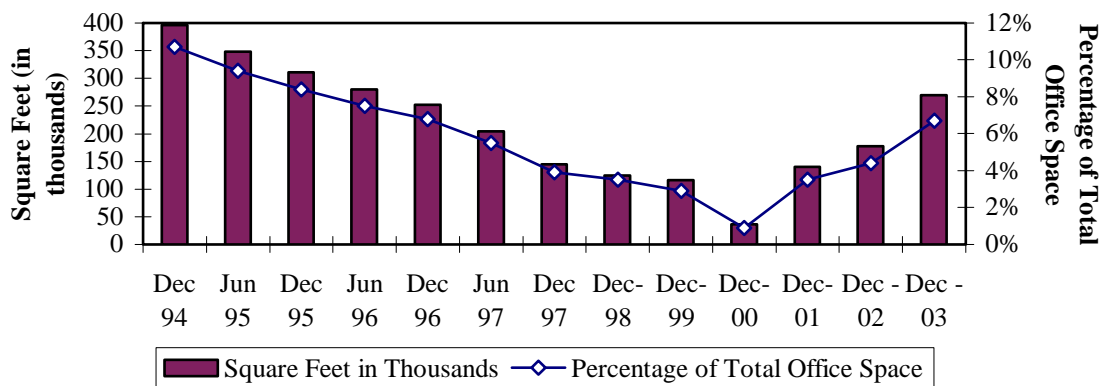
Residential Real Estate Tax Base (2004)



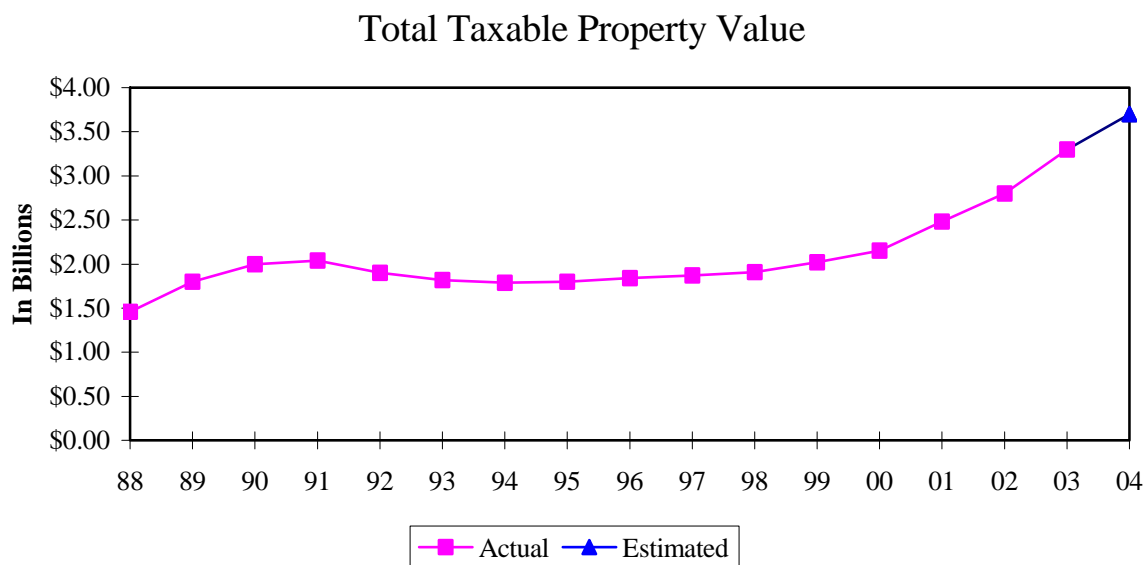
Commercial Real Estate Tax Base (2004)



Office Vacancies (1994 to 2003)



The 2004 total value of City residential and commercial properties before appeals — \$3,710,392,800 — exceeds last year's assessed value — \$3,318,050,400 — by \$392,342,400. As substantial new construction projects continue to be proposed, this value is expected to continue to increase, though at a slower pace. Real estate revenue, while positive in the near term, has been cyclical in the past. While no one can anticipate if or when that pattern may recur, given the City's dependence on this major revenue sector, it is prudent to keep it in mind in anticipating future expenditures.



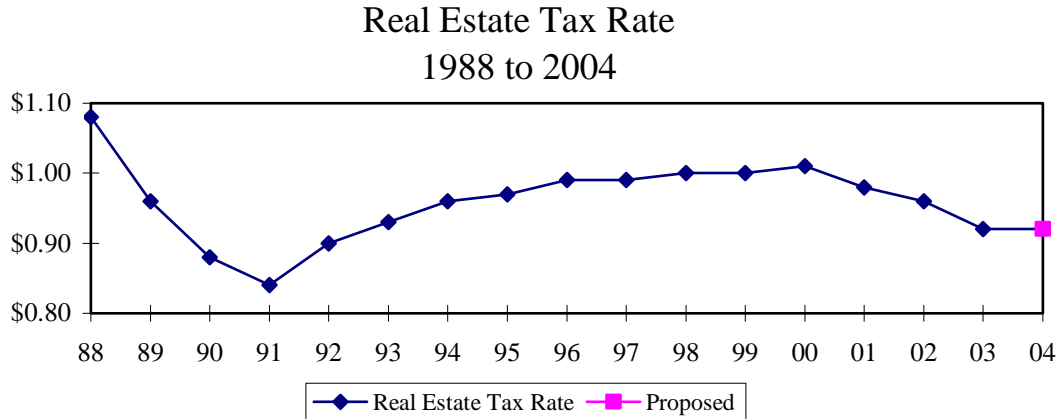
2004 Total Taxable Property Value = \$3,710,392,800

2003 Total Taxable Property Value = \$3,318,050,400

In accordance with Council guidance for maintaining services and programs while maintaining the real estate tax rate at the existing level, the proposed real estate tax will remain at

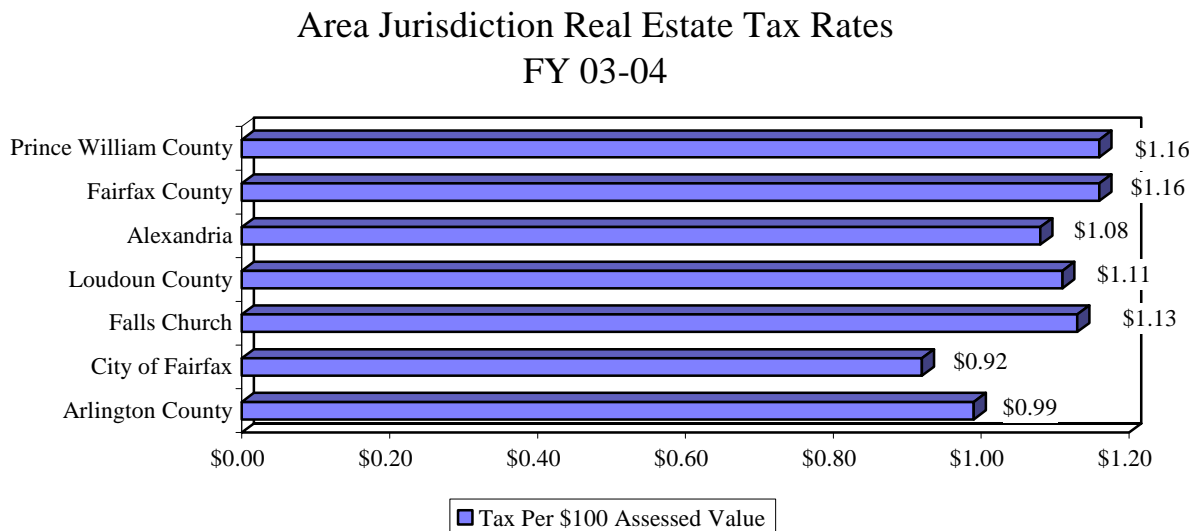
*Proposed
Real Property Tax Rate
Remains at 92 cents*

92 cents per \$100 of assessed valuation, including continuing to dedicate three cents to the open space fund.



Projected real estate taxes for FY04-05 are \$36,125,453. It is important to keep in mind that should the City Council ultimately decide to lower the proposed real estate tax rate, each penny reduction not only reduces the projected revenue in FY 04-05, the June, 2004 real estate tax revenue would go down an additional \$183,010 per penny reduction in the rate.

In comparing tax rates, it is important to keep in mind two factors often overlooked – levels of service vary from jurisdiction to jurisdiction and, for those residents of area towns, a town tax is levied in addition to the county tax. The City of Fairfax prides itself on its high level of services and low tax rate – the lowest in Northern Virginia. Two large towns in our immediate area – Vienna and Herndon – known for similar levels of community activity, levy real estate taxes of \$.30 and \$.32 per \$100 respectively, in addition to the Fairfax County tax, currently \$1.16 per \$100.



Impact of Proposed Real Estate Tax Rate
on Property Owner's Tax Bill at Various Values
(Single Family and Townhouse)

2003 Assessment	2003 Taxes at \$.92 per \$100	2004 Assessment¹	2004 Taxes at \$.92 per \$100
\$ 280,000	\$ 2,576	\$ 314,440	\$ 2,893
400,000	3,680	449,200	4,133
550,000	5,060	617,650	5,682

¹ Average estimated increase of 12.3% used; each property is separately valued and may or may not see an increase of 12.3% in assessed value.

1 cent on the Tax Rate = \$381,743

FY04-05 Real Estate Tax Revenue = \$36,125,453*

FY03-04 Real Estate Tax Revenue = \$32,936,953*

*Includes Service district tax, delinquent payments, penalties and interest

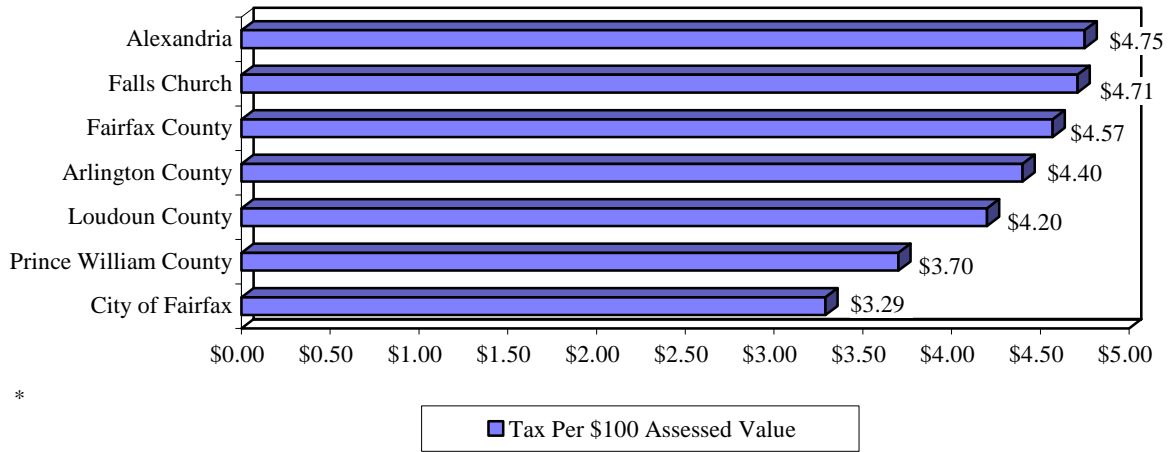
Personal Property Tax

The City's personal property tax rate is significantly lower than that of surrounding jurisdictions. No increase is budgeted in the rate of \$3.29 per \$100 of assessed valuation. The personal property tax amounts to 9.1 percent of General Fund revenue. As such, it is a significant revenue source for the City. For the past two years, personal property tax revenues have declined and been under budget, primarily due to declining values in used cars and over-optimistic revenue projections. It appears that those revenues have stabilized, but we need to monitor this closely.

Projected FY03-04 revenues are significantly lower than the \$7,760,000 originally budgeted. FY03-04 revenues are now projected at only \$7,060,000. Based on those figures, projected revenues in this category in FY04-05 are estimated at \$7,200,000.

At the current time, taxpayers are "reimbursed" by the state at a rate of 70 percent of the tax on up to the first \$20,000 of assessed value. While in most cases a disproportionate amount of money collected at local levels is disbursed to other areas of the state through means such as the composite index for education funding, in the case of personal property tax, a disproportionately larger amount is paid to Northern Virginia, because there are more and higher value cars in this area.

Proposed Personal Property Tax Rates FY 04-05



FY04-05 Personal Property Tax Revenue = \$7,200,000*

FY03-04 Personal Property Tax Revenue = \$7,760,000*

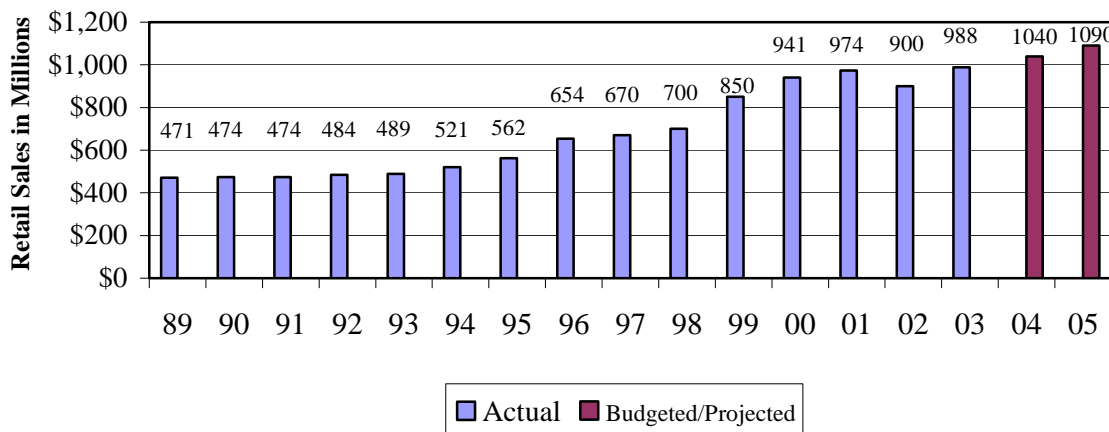
*Excludes delinquent payments, penalties and interest.

Local Sales and Use Tax

The local sales and use tax is one of the most important and highest revenue generators for the City; local sales and use tax revenue accounts for 12.7 percent of all General Fund revenues. For a number of years, the City has been the highest generator of per capita sales and use tax revenue in the state.

Revenue in FY03-04 is projected to be \$10,425,000, 6.9 percent over the amount budgeted. Revenue for FY04-05 is projected at \$10,900,000. Over 40 percent of sales and use tax revenues are in the food group category. Retail developments completed or under development in FY03-04 and additional retail planned for FY04-05 will help keep retail sales in the City at a high level. We continue to monitor city revenues from this source very carefully so that, should a downward trend begin, we will be aware of it immediately and make adjustments accordingly.

Retail Sales Growth
1989 to 2005



FY04-05 Sales and Use Tax Revenue = \$10,900,000

FY03-04 Sales and Use Tax Revenue = \$9,750,000

Meals Tax

This has been a very stable source of revenue for the City, increasing slightly every year at current rates. Meals tax revenue in FY04-05 is projected at \$2,080,000. No rate increase is budgeted for FY 04-05, leaving the rate unchanged at 2 percent. The 2004 General Assembly considered capping and/or requiring voter approval for any increase in local meals tax. While not enacted, attempts such as these to limit the flexibility of localities to determine this revenue remain a concern.

As the chart below indicates, several area jurisdictions also impose this tax and in most cases at a rate significantly higher than that of the City's.

Meals Tax Rates 2003

City/County/Town	Percent
City of Fairfax	2
Alexandria	3
Arlington	4
Fairfax Co.	N/A
Falls Church	4
Fredericksburg	4.5
Loudoun	N/A
Manassas	4
Manassas Park	4
Prince William	N/A
Spotsylvania	4
Stafford	4
Leesburg	3.5
Middleburg	3
Occoquan	1
Vienna	4
Warrenton	4

Source: Weldon Cooper Center

FY04-05 Meals Tax Revenue = \$2,080,000

FY03-04 Meals Tax Revenue = \$1,945,000

Transient Lodging Tax

The City's lodging tax rate, four percent, is in the mid-range for Northern Virginia. We are projecting revenues of \$430,000 for FY04-05, \$20,000 lower than originally projected in the FY03-04 budget. This reflects the continuing downturn in hotel revenue throughout the Washington DC area. This revenue will not increase until the tourism economy improves and additional hotel rooms become available as a result of City economic development efforts. Under the City's current charter, the lodging tax is at the maximum rate.

FY04-05 Lodging Tax Revenue = \$430,000

FY03-04 Lodging Tax Revenue = \$450,000

State Aid

Revenue from the state represents approximately 9.1 percent of total general fund revenues. This year, as has been widely reported, the state is facing significant revenue shortfalls and/or the possibility of tax restructuring. Depending on how this is resolved, localities may see reduced aid in a variety of programs, particularly in social services, courts, libraries, funding for police, reimbursement for constitutional and other officers, as well as direct shifting of some program costs to localities.

Direct State Aid Maintained

The City's share of state aid compared to that of other jurisdictions appears smaller because some of the amount of state aid received by the City in support of schools and the amount of social services is not shown because it is deducted from the amount of our contracts with Fairfax County. This influences the cost of City contracts for those services, particularly when the county makes a decision whether or not to make up state cuts with local dollars.

In FY04-05, we are estimating a total amount of state aid of \$7,787,493, an increase of only \$51,730 over last year's budgeted amount. These numbers, however, are subject to change until the state's budget is finalized.

FY04-05 State Aid = \$7,787,493

FY03-04 State Aid = \$7,735,763

Utility Tax

This has been a very stable source of revenue for the City. Revenue in FY04-05 is projected at \$2,925,000, an increase of \$195,000 over FY03-04. This increase is wholly due to the utility tax to cell phones. Cell tax revenue is projected at \$250,000 in FY 03-04 and \$450,000 in FY 04-05.

As we had anticipated, extension of the utility tax to cell phones has helped to maintain this revenue source; as cellular service has grown, the number of land lines is diminishing.

Cell Tax Rates 2004

City/County/Town	Percent
Fauquier	10% of 1 st \$30
Fredericksburg	10% of 1 st \$30
Loudoun	9% of 1 st \$30
Manassas Park	10% of 1 st \$30
Prince William	10% of 1 st \$30
Spotsylvania	10% of 1 st \$30
Stafford	10% of 1 st \$30
Occoquan	10% of 1 st \$15
Warrenton	10% of 1 st \$30
City of Fairfax	10% of 1 st \$30

Source: Weldon Cooper Center

FY04-05 Utility Tax Revenue = \$2,925,000

FY03-04 Utility Tax Revenue = \$2,730,000

Cigarette Tax

The City's cigarette tax was raised in 2003 from 30 cents per package to 50 cents per package. FY 04-05 revenue, including the tax increase, is projected at \$877,250; in FY 03-04 estimated revenues totaled \$877,250, \$100,050 less than originally budgeted.

Although revenue did not increase as much in FY 03-04 as we initially projected, overall this revenue source has increased as a result of the increased rate. Additionally, apparently many retail chain stores set a price-per-pack regardless of jurisdiction effectively spreading the tax burden around.

FY04-05 Cigarette Tax = \$877,250

FY03-04 Cigarette Tax = \$977,300

Business License Tax

Business license taxes represent approximately 9.3 percent of general fund revenues. Business license tax revenue in FY04-05 is projected to total \$7,950,000, an increase of approximately 6 percent (\$450,000) over budgeted FY03-04 revenue. Actual business license receipts for FY03-04 now are projected to be \$300,000 above the amount budgeted in FY03-04. In estimating BPOL revenue for FY04-05, no rate changes have been proposed. As part of a disturbing trend, as with the meals and transient occupancy taxes, the General Assembly has been considering action to cap and/or curtail this local revenue source, although no legislation is expected to be adopted this year.

FY04-05 BPOL Revenue = \$7,950,000

FY03-04 BPOL Revenue = \$7,500,000
